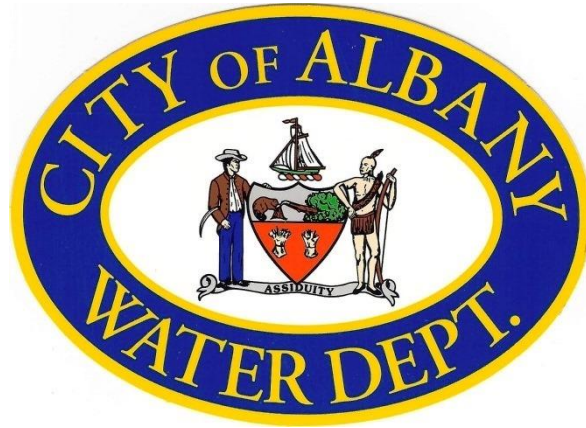


Albany Water Board  
Albany Municipal Water Finance Authority  
Internal Control Program



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# **Albany Water Board Albany Municipal Water Finance Authority Internal Control Program**

## **Purpose:**

The purpose of this program is to identify and document the internal control environment for the Albany Water Board and Albany Municipal Water Finance Authority; to establish an annual program to assess the effectiveness of such internal controls. To establish a program for corrective action for any internal control weaknesses or deficiencies identified.

## **Background:**

In accordance with Section 2800 (1)(a)(9) and Section 2800 (2)(a)(9) of Public Authorities Law, the management of the Albany Water Board and the Albany Municipal Water Finance Authority establish an annual assessment on the effectiveness of internal controls.

The purpose of an adequate internal control system is to: (a) promote effective and efficient operations so as to help the authority carry out its mission; (b) provide reasonable assurance that assets are safeguarded against inappropriate or unauthorized use; (c) promote the accuracy and reliability of accounting data and financing reporting to ensure transactions are executed in accordance with management's authorization and recorded properly in the accounting records; (d) encourage adherence to management's policies and procedures for conducting program and operations; and (e) ensure compliance with applicable laws and regulations.

## **Major Business Functions:**

Below is an identification of the system's major business units, known risks, and mitigating controls.

### **Cash Management**

#### *Cash Receipts*

Cash is collected by tellers in two (2) physical locations: Albany Water Headquarters, 10 N. Enterprise Drive, Albany, NY, 12204, and; City Hall for the City of Albany, 24 Eagle Street, Albany, NY, 12210.

Tellers at the Albany Water Headquarters location share one drawer/till to be the receptacle for all checks, money orders, and credit card slips processed and received by any member of Customer Service. The tellers do not accept cash payments at this location. The tellers do not accept checks for amounts over balances due. Tellers do not have access to physical cash for any purposes. They are unable to make change or refund cash to customers for any reason. Daily, the checks are provided to Finance for preparation of the deposit slip, or electronic deposit with the bank.

Tellers at City Hall location have individual drawers/tills. This location receives cash, checks, money orders, and credit cards. The control environment is the responsibility of the Treasurer of the City of Albany. Albany Water verifies that the amount of money received and applied to customer accounts is equal to the daily deposit received from City Hall. The daily remittance advices received from customers is reviewed and verified by Albany Water to ensure all payments were applied to the correct accounts.

A member of Finance reports the daily cash received in the bank and compares this to cash receipt data in our billing system. Any differences are investigated at the end of the month. Frequently, timing differences

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exist between the bank and the billing system. These are reconciled each month as part of the bank reconciliation. The following is a listing of risks identified and the mitigating control to address:

Risk	Control
<p>Theft of cash receipts.</p> <p>Payments are not applied to customer accounts.</p> <p>Inappropriate credits or adjustments are made to hide theft or error.</p>	<p>Albany Water Headquarters does not receive cash.</p> <p>Cash receipts from City Hall are compared to remittance advices received from customers. Past due accounts are reviewed on a quarterly basis. Interest and penalties are applied to delinquent balances, and sent to customers. Customers review their bills to ensure that payments they have made are applied correctly. Credits and other adjustments are reviewed on a monthly basis as part of the month-end close.</p> <p>The CFO closes the month, independent of the other accounting functions. All cash activity is reviewed and reconciled to the bank statements. Any differences are investigated immediately.</p> <p>The CFO posts the month's activity to the accounting system after the reconciliation is complete.</p>

#### *Cash Disbursements*

The cash disbursement process for processing payroll and payables is centralized in the Treasurer's office at City Hall. Monthly, Albany Water provides a cash outlay to the City to cover that month's expenses. The month's expenses include payroll, capital expenditures, and operating expenses. The month's disbursement activity is reviewed by Albany Water CFO for reasonableness. This is reviewed in conjunction with a detailed Accounts Payable Aging to ensure that open invoices are being paid timely and that the money is provided to the City.

Other cash disbursements include transfers from reserve accounts into operating bank accounts. Use of the reserve account is restricted to covering either operating or capital expenditures that exceed budget or are otherwise not funded. Wire transfers out of this account are initiated by the Chief Fiscal Officer to the custodian. The custodian prepares a wire transfer form and sends to the Commissioner for review and authorization. The Commissioner executes the document before the wire transfer can be made. Confirmation of completion is obtained from the custodian.

Risk	Control
<p>Unauthorized cash disbursement – Operating Expenses.</p>	<p>The City is responsible for the internal control structure for cash disbursements. Albany Water monitors activity of cash disbursements charged against Albany Water, on a monthly basis.</p>

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Unauthorized cash disbursement – Reserves.	<p>Wire transfers and other withdrawals from reserves require a signed authorization from the Commissioner. The CFO reviews activity from reserves as part of the month-end close. Quarterly, Hugh Johnson Advisors provides a report to the Boards regarding account balances and account activity.</p> <p>Monthly reconciliation of all cash and investment accounts is performed by the CFO.</p>
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#### Billing and Receivables

Albany Water utilizes Springbrook software for a billing system. All billing is prepared in-house by the Customer Service Supervisor. Billing occurs in two cycles. For residential water and sewer users, bills are sent every four months. For large commercial users, billing occurs monthly. Billing rates and details are available in the annual Rate Report.

At the close of each year, all delinquent residential accounts with open balances are relieved by Albany County. Albany Water is paid for the amount of relieves transferred to the County.

Risk	Control
Accounts with usage are not billed.	Billing occurs by route. Billing is performed electronically, using Springbrook. Springbrook pulls all accounts in the current billable route. Limited analytical procedures are performed to ensure material accuracy. These procedures include comparing to the same period in a prior year and then adding any rate increases. If significant deviations from expectations occur, qualitative data is considered, such as, effects from wet or dry weather events.
<p>Billing adjustments or reductions are applied to accounts inappropriately.</p> <p>Penalties and interest incurred for non-payment is not applied to applicable accounts.</p>	<p>The AWD has a bill reduction/modification policy which requires periodic review of accounts requiring adjustment. Prior to adjustments being made, the Customer Service Supervisor reviews each adjustment case with the Commissioner or the Chief Fiscal Officer. The adjustment will only occur with the Commissioner or Chief Fiscal Officer approval.</p> <p>All billing adjustments are reviewed on a monthly basis by the CFO as part of the month-end close. The CFO looks for anything inconsistent with current billing processes, or any large, unsubstantiated adjustment to an account. If adjustments require further investigation, the CFO works with the Customer Service Supervisor to</p>

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	understand the adjustment and either accept or correct.
Payments received are not applied to customer accounts.	<p>Each month, the CFO performs an Accounts Receivable Rollforward to ensure all cash was applied to an open balance. The mathematical formula to roll accounts receivable is:</p> $\begin{aligned} &\text{Beginning Accounts Receivable} \\ &+ \text{New Billings} \\ &- \text{Cash Receipts} \\ &= \text{Ending Accounts Receivable} \end{aligned}$ <p>If all payments were applied to a valid account, the accounts receivable balance will roll without any differences.</p>

#### Procurement

Purchasing is a decentralized process at Albany Water. Individuals across the business units are responsible for the entering of Purchase Orders, which signifies a request to purchase goods or services. Individuals with Purchase Order entry access are as follows:

Inventory Control Manager  
Laboratory Director  
Assistant Chief Operator  
Accounting Assistant  
Administrative Assistant – Finance  
Accountant II

Purchase orders entered by the Inventory Control Manager, Laboratory Director and Assistant Chief Operator are reviewed by a member of Finance to ensure the form has been completed properly and that the purchase agrees to procurement policies and procedures. All purchase orders are reviewed by the Chief Fiscal Officer before being sent to the Budget Department for additional approval. Budget ensures that the spending is appropriate and that there are appropriations sufficient to pay for the expenditure. After Budget Department approves, the purchase order is sent to the Purchasing Department for final review and execution. The Purchasing Department ensures that the spending adheres to City procurement policies and to General Municipal Laws 103 and 104b.

For the purchase of goods, delivered product must be compared to the purchase order. Deliveries should include a packing list of a ship list. These items need to be agreed to the purchase order and verified to the product delivered. The employee receiving the goods must then sign the packing list, confirming that the product received agrees to the purchase order, packing list, and the goods are not damaged.

Risk	Control
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Unapproved purchase occurs.	<p>Originating individual requesting the purchase must receive supervisor's approval prior to requesting purchase.</p> <p>Purchase Orders are reviewed on multiple levels, receiving approval before being able to proceed to the next purchasing level.</p>
Physical goods purchased are missing or stolen.	All purchases have a designated employee responsible for receiving goods. These individuals are not responsible for approving purchase orders.
Payment is made for goods not received.	Goods purchased are subject to the three way match of the purchase order to the packing list to the invoice. All of these forms are gathered and presented with the invoice for payment. Signature on the packing list supports goods being physically received and denotes the employee who received goods.
Fictitious vendor is created and paid.	<p>Only the Purchasing Department with the City of Albany may enter new vendors. New vendor setup requires a W9 with a federal tax identification number. Individuals with purchase order entry access do not have access to the new vendor module.</p> <p>Annually, management reviews a listing of approved vendors to attempt to identify any vendor that is out of the ordinary.</p>

#### Human Resources, Payroll, & Timekeeping

Albany Water utilizes Kronos as the central repository for timekeeping. Timecard punches are via biometric reading at each time clock. Each week, timecards are reviewed and approved by the employee's immediate supervisor. Once all timecards are approved by a supervisor, Finance reviews timecards to ensure they were completed accurately, all approvals have been obtained, and that nothing out of the ordinary appears to have occurred. Payroll is finalized and then provided to the Payroll Department for final review and processing.

Any changes to an employee's pay, position, or other personnel matter is provided on a data sheet, which is then reviewed and signed by the affected employee, the Commissioner, and a representative from Human Resources. Raises and pay rate increases typically occur annually as part of the budget process. Such rate increases are reviewed and approved by the Albany Water Board and the Albany Municipal Water Finance Authority.

New and unfilled positions that are budgeted are approved by the Commissioner, Water Board, and Albany Municipal Water Finance Authority as part of the annual budget process.

Risk	Control
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Unauthorized pay increases.	Annually, the Board reviews a listing of current pay rates by employee, and compares to the employees' previous pay rate to identify any unapproved pay rate increases.
Fictitious employee exists and is receiving a paycheck.	An employee must generate and record worked hours via punches at the time clock. The time clock is biometric and only recognizes the employee's fingerprint that is on file.  An employee roster is reviewed annually as part of the annual budgeting process.
A payroll check is duplicated.	When payroll has processed payroll, issued checks, or made direct deposit transfers, Finance reviews the payroll register against the payroll report to ensure no duplicates exist.  Final payroll is certified by the Commissioner.  Payroll is reconciled quarterly.
Access to personal employee information is compromised.	The Kronos and Human Resource Module in ERP have restrictive user based security to allow only the appropriate individuals have access to sensitive information.  Physical employee files are maintained in the Chief Fiscal Officer's office, which is locked when the CFO is not present.

### Equipment and Consumables

Albany Water has a comprehensive capital asset policy manual which elaborates on the treatment, processes, and procedures relating to capital assets.

Consumables are any good that has a useful life of less than one year.

Risk	Control
Small capital assets and other consumables are stolen.	Equipment is barcoded, logged, and then issued to an appropriate employee, who is charged as the responsible individual for the piece of equipment (only applies to small equipment such as laptops, computers, cameras, etc.). Inventory is physically counted annually and agreed to the inventory system of record.  All equipment is labelled as the "Property of Albany Water".

### Budget

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Annually, management of Albany Water prepares a budget. The budget is then presented to the Albany Water Board and the Albany Municipal Water Finance Authority for approval.

<b>Risk</b>	<b>Control</b>
Budget is published without approval.	The budget must be approved through formal resolution with the Albany Water Board and the Albany Municipal Water Finance Authority before it may be printed.
Unauthorized changes to the budget occur.	Annually, the Treasurer of the Albany Water Board reviews the published budget to the presented budget to ensure accuracy.  Increases to appropriations during a budget year must be approved through formal resolution with the Albany Water Board and the Albany Municipal Water Finance Authority before it will be accepted on the Board of Estimate and Apportionment's agenda. The increase to appropriations will only be processed after approval from the Board of Estimate and Apportionment.
Apportionments not sufficient in budget to properly operate the system.	A consultant, independent to Albany Water, prepares a rate report which analyzes whether the system has budgeted appropriately to meet debt service covenants.

**Independent Audit:**

Annually, an independent audit is performed by a certified public accounting firm. The audit ensures that Albany Water is presenting financial information in a materially accurate manner. The audit also performs limited tests over compliance with applicable laws and regulations. The annual audit also consists of an assessment on internal controls.

**Annual Assessment of Internal Controls by Management:**

Annually, the management of Albany Water will review the internal control environment of the system. This will consist of first identifying the major business units of the organization. Then, the specific risks in these areas are identified. Each risk will be ranked on a low-moderate-high scale, based on the potential impact of a risk and its likelihood of occurring.

For each risk identified, a mitigating control must be in place. If a risk is identified that does not have a control, a control must be developed.

Each control identified must be tested to ensure that it is operating effectively. Tests will be individual and specific to the control and risk.



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The results of this assessment are reviewed by management, with any weaknesses or deficiencies identified documented and corrective measures prescribed. The report is then presented to the Albany Water Board and Albany Municipal Finance Authority for review and discussion.

Further, the annual independent audit results over internal controls should be evaluated with management's assessment of internal controls.